

**REPORT OF THE AUDIT OF THE
PIKE COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2005**



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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable William M. Deskins, Pike County Judge/Executive
Members of the Pike County Fiscal Court

The enclosed report prepared by Morgan-Franklin, LLC, Certified Public Accountants, presents the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pike County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements.

We engaged Morgan-Franklin, LLC to perform the audit of these financial statements. We worked closely with the firm during our report review process; Morgan-Franklin, LLC evaluated Pike County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen".

Crit Luallen
Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
PIKE COUNTY FISCAL COURT

June 30, 2005

Morgan-Franklin has completed the audit of the Pike County Fiscal Court for fiscal year ended June 30, 2005. We have issued an unqualified opinion on the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information. We have issued a qualified opinion on the aggregate discretely presented component units. We qualified our opinion on the aggregate discretely presented component units because the Pike County Golf Management Corporation, a legally separated component unit, used an accrual basis of accounting for presentation of their financial statements. The Pike County Fiscal Court used a modified cash basis of accounting for presentation of their financial statements. Accounting principles generally accepted in the United States of America, as applicable to the modified cash basis of accounting; require component units to be reported under the same basis of accounting as the primary government. In accordance with OMB Circular A-133, we have issued an unqualified opinion on the compliance requirements that are applicable to Pike County's major federal program for the year ended June 30, 2005.

Financial Condition:

The county had total net assets of \$41,129,723 as of June 30, 2005. The county had unrestricted net assets of \$83,655 in its governmental activities as of June 30, 2005, with total net assets of \$39,055,553. In its business-type activities, the county had unrestricted net assets of \$786,779, with total net assets of \$2,074,170. Total debt principal as of June 30, 2005, was \$18,919,102 with \$3,582,755 due within the next year.

Report Comments:

- The Fiscal Court Should Appoint An EMA Director Who Is A Resident Of Pike County

Deposits:

The fiscal court's deposits were not fully insured and collateralized by bank securities.

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To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable William M. Deskins, Pike County Judge/Executive
Members of the Pike County Fiscal Court

Independent Auditors' Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Pike County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Pike County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Pike County Golf Management Corporation, which represent 28% and 31%, respectively, of the assets and revenues of the discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Pike County Golf Management Corporation, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Pike County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

To the People of Kentucky
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Management of Pike County Fiscal Court has adopted the modified cash basis of accounting, as described in Note 1, to present the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information. Management of the Pike County Golf Management Corporation, a discretely presented component unit, has adopted the accrual basis of accounting. The financial statements, because of the two different bases of accounting presented, include certain accruals required by accounting principles generally accepted in the United States of America for the Pike County Golf Management Corporation not required under the modified cash basis of accounting.

In our opinion, based on our audit and the report of other auditors, except for the effects of such adjustments, if any, as might have been determined to be necessary had the Pike County Golf Management Corporation's financial statements been presented on a modified cash basis of accounting, the financial statements referred to above present fairly, in all material respects, the financial position of the aggregate discretely presented component units of Pike County, Kentucky, as of June 30, 2005 and the changes in financial position and cash flows thereof for the year then ended in conformity with the basis of accounting described in Note 1.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information for Pike County, Kentucky, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

Management has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Pike County, Kentucky's basic financial statements. The accompanying supplemental information, combining fund financial statements, are presented for additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. The combining fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation of the basic financial statements taken as a whole.

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
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Honorable William M. Deskins, Pike County Judge/Executive
Members of the Pike County Fiscal Court

In accordance with Government Auditing Standards, we have issued our report dated December 20, 2005, on our consideration of Pike County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the schedule of findings and questioned costs, included herein, which discusses the following report comments:

- The Fiscal Court Should Appoint An EMA Director Who Is A Resident Of Pike County

Respectfully submitted,

Morgan - Franklin, LLC

Morgan-Franklin, LLC

Audit fieldwork completed -
December 20, 2005

PIKE COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2005

Fiscal Court Members:

William M. Deskins	County Judge/Executive
Jeff Anderson	Magistrate
J. Vernon Johnson	Magistrate
Leo Murphy	Magistrate
Kenneth Robinson	Magistrate
Lloyd Hillman Dotson	Magistrate
Christian Harris	Magistrate

Other Elected Officials:

Howard Keith Hall	County Attorney
Rodney Scott	Jailer
Lillian P. Elliott	County Clerk
David Deskins	Circuit Court Clerk
Charles "Fuzzy" Keese	Sheriff
Lonnie Osborne	Property Valuation Administrator
Russell Roberts	Coroner

Appointed Personnel:

Johnda B. Billiter	County Treasurer
Frankie Stacy	Finance Officer

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PIKE COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2005

PIKE COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
June 30, 2005

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Totals	Pike County Interlocal 911 Board	Pike County Golf Mngt. Corp. C Y 2004
ASSETS					
Current Assets:					
Cash and Cash Equivalents	\$ 9,495,794	\$ 2,622,803	\$ 12,118,597	\$ 114,958	\$ 81,252
Receiveable Due from Pike County					
Golf Management Corporation	328,275		328,275		
Receiveable Due from Sale of Assets	50,000		50,000		
Receiveable Due from Airport Board	37,401		37,401		
Capital Assets Held for Sale	520,000		520,000		
Total Current Assets	10,431,470	2,622,803	13,054,273	114,958	81,252
Noncurrent Assets:					
Construction in Progress	308,515		308,515		
Capital Assets - Net of Accum. Depr.					
Land and Land Improvements	438,690		438,690		
Buildings	7,902,515		7,902,515		
Vehicles and Equipment	2,185,613	1,776,400	3,962,013	576,631	188,533
Infrastructure Assets-Net of Depr.	34,382,819		34,382,819		
Total Noncurrent Assets	45,218,152	1,776,400	46,994,552	576,631	188,533
Total Assets	55,649,622	4,399,203	60,048,825	691,589	269,785
LIABILITIES					
Current Liabilities:					
Bonds Payable	240,000		240,000		
Financing Obligations Payable	2,541,901	800,854	3,342,755		279,452
Total Current Liabilities	2,781,901	800,854	3,582,755	0	279,452
Noncurrent Liabilities:					
Bonds Payable	10,480,000		10,480,000		
Financing Obligations Payable	3,332,168	1,524,179	4,856,347		52,822
Total Noncurrent Liabilities	13,812,168	1,524,179	15,336,347	0	52,822
Total Liabilities	16,594,069	2,325,033	18,919,102	0	332,274
NET ASSETS					
Invested in Capital Assets,					
Net of Related Debt	28,624,083	(548,633)	28,075,450	576,631	(143,741)
Restricted For:					
Capital Projects	5,503,648		5,503,648		
Debt Service	4,844,167	1,836,024	6,680,191		
Unrestricted	83,655	786,779	870,434	114,958	81,252
Total net assets	\$ 39,055,553	\$ 2,074,170	\$ 41,129,723	\$ 691,589	\$ (62,489)

The accompanying notes are an integral part of the financial statements.

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PIKE COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2005

PIKE COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 8,119,917	\$ 312,188	\$ 536,614	\$ 631,405
Protection to Persons and Property	3,123,791	1,024,969	331,638	
General Health and Sanitation	1,063,965	33,349		
Social Services	945,950		39,500	
Recreation and Culture	800,951	978		
Roads	4,374,976		10,614,762	1,697,506
Airports	47,314			
Debt Service	1,027,994			
Capital Projects	101,497			
Total Governmental Activities	19,606,355	1,371,484	11,522,514	2,328,911
Business-type Activities:				
Solid Waste Operations	4,248,660	5,287,988	239,148	
Jain Canteen	369,617	348,664		
Total Business-type Activities	4,618,277	5,636,652	239,148	-
Total Primary Government	\$ 24,224,632	\$ 7,008,136	\$ 11,761,662	\$ 2,328,911
Component Units:				
Pike County Inter-Local 911 Board	\$ 448,940	\$ 434,067	\$	\$
Pike County Golf Management Board	348,370	195,143		3,578
Total Component Units	\$ 797,310	\$ 629,210		\$ 3,578

General Revenues:

Taxes:
Real Property Taxes
Personal Property Taxes
Motor Vehicle Taxes
Other Taxes
Excess Fees
Interest Received
Transfers
Miscellaneous Revenues
Total General Revenues
Change in Net Assets
Net Assets - Beginning (Restated)
Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

PIKE COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2005
(Continued)

Net (Expenses) Revenues and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-Type Activities	Totals	Component Units
\$ (6,639,710)	\$	\$ (6,639,710)	\$
(1,767,184)		(1,767,184)	
(1,030,616)		(1,030,616)	
(906,450)		(906,450)	
(799,973)		(799,973)	
7,937,292		7,937,292	
(47,314)		(47,314)	
(1,027,994)		(1,027,994)	
(101,497)		(101,497)	
(4,383,446)		(4,383,446)	
	1,278,476	1,278,476	
	(20,953)	(20,953)	
	1,257,523	1,257,523	
(4,383,446)	1,257,523	(3,125,923)	
			(14,873)
			(149,649)
			(164,522)
1,987,785		1,987,785	
634,265		634,265	
526,056		526,056	
853,595		853,595	
556,712		556,712	
164,070	24,370	188,440	958
50,227	(50,227)	0	
1,200,437	54,104	1,254,541	
5,973,147	28,247	6,001,394	958
1,589,701	1,285,770	2,875,471	(163,564)
37,465,852	788,400	38,254,252	792,664
\$ 39,055,553	\$ 2,074,170	\$ 41,129,723	\$ 629,100

The accompanying notes are an integral part of the financial statements.

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PIKE COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2005

PIKE COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2005

	General Fund	Road Fund	LGEA Fund	General Obligation Bond Fund	Non- Major Funds	Total Governmental Funds
ASSETS						
Cash and Cash Equivalents	\$ 204,553	\$ 755,164	\$ 1,808,373	\$ 6,020,952	\$ 706,752	\$ 9,495,794
Receivable Due From Pike County Management Corporation	328,275					328,275
Receivable Due From Airport Bd.	37,401					37,401
Total Assets	<u>\$ 570,229</u>	<u>\$ 755,164</u>	<u>\$ 1,808,373</u>	<u>\$ 6,020,952</u>	<u>\$ 706,752</u>	<u>\$ 9,861,470</u>
FUND BALANCES						
Reserved for:						
Encumbrances	\$ 32,308	\$ 131,405	\$ 14,296		\$ 34,128	\$ 212,137
Capital Projects				5,500,093	3,555	5,503,648
Debt Service Fund				520,859	13,317	534,176
Unreserved						
General Fund	537,921					537,921
Special Revenue Funds		623,759	1,794,077		655,752	3,073,588
Total Fund Balances	<u>\$ 570,229</u>	<u>\$ 755,164</u>	<u>\$ 1,808,373</u>	<u>\$ 6,020,952</u>	<u>\$ 706,752</u>	<u>\$ 9,861,470</u>

Reconciliation of Balance Sheet - Governmental Funds to Statement of Net Assets:

Total Fund Balances	\$ 9,861,470
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	131,272,669
Accumulated Depreciation	(86,054,517)
Capital Assets Held For Resale	520,000
Receivable on Sale of Fixed Assets	50,000
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
Financing Obligations	(5,874,069)
Bonded Debt	<u>(10,720,000)</u>
Net Assets Of Governmental Activities	<u>\$ 39,055,553</u>

The accompanying notes are an integral part of the financial statements.

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PIKE COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

PIKE COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

	<u>General Fund</u>	<u>Road Fund</u>	<u>LGEA Fund</u>
REVENUES			
Taxes	\$ 3,995,265	\$	\$
In Lieu Tax Payments	29,439	70	
Excess Fees	556,712		
Licenses and Permits	263,233		
Intergovernmental	1,019,449	4,140,191	8,376,368
Charges for Services	33,449		
Miscellaneous	163,296	659,930	71,178
Interest	51,507	34,134	
Total Revenues	<u>6,112,350</u>	<u>4,834,325</u>	<u>8,447,546</u>
EXPENDITURES			
General Government	3,033,587		162,293
Protection to Persons and Property	493,251		618,053
General Health and Sanitation	752,150		305,007
Social Services	176,147		769,803
Recreation and Culture	445,220		584,143
Roads	66,427	11,697,880	
Debt Service			339,567
Airports	47,314		
Capital Projects	101,497		
Administration	<u>1,332,432</u>	<u>1,065,707</u>	<u>141,607</u>
Total Expenditures	<u>6,448,025</u>	<u>12,763,587</u>	<u>2,920,473</u>
Excess (Deficiency) of Revenues			
Expenditures Before Other			
Financing Sources (Uses)	<u>(335,675)</u>	<u>(7,929,262)</u>	<u>5,527,073</u>
Other Financing Sources (Uses)			
Payment to Bond Escrow Agent			
Proceeds of Refunding Bonds			
Proceeds of General Obligation Bonds			
Proceeds from Financing Obligations		1,035,000	
Transfers From Other Funds	275,000	4,100,007	
Transfers To Other Funds		(648,143)	(6,390,843)
Total Other Financing Sources (Uses)	<u>275,000</u>	<u>4,486,864</u>	<u>(6,390,843)</u>
Net Change in Fund Balances	(60,675)	(3,442,398)	(863,770)
Fund Balances - Beginning	630,904	4,197,562	2,672,143
Fund Balances - Ending	<u>\$ 570,229</u>	<u>\$ 755,164</u>	<u>\$ 1,808,373</u>

The accompanying notes are an integral part of the financial statements.

PIKE COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2005
(Continued)

General Obligation Bond Fund	Non- Major Funds	Total Governmental Funds
\$	\$ 6,435	\$ 4,001,700
		29,509
		556,712
		263,233
	1,142,350	14,678,358
	163,112	196,561
120,765	190,519	1,205,688
58,454	19,975	164,070
<u>179,219</u>	<u>1,522,391</u>	<u>21,095,831</u>
	1,503,523	4,699,403
	1,752,889	2,864,193
		1,057,157
		945,950
		1,029,363
		11,764,307
917,464	475,974	1,733,005
		47,314
308,515		410,012
	824,616	3,364,362
<u>1,225,979</u>	<u>4,557,002</u>	<u>27,915,066</u>
<u>(1,046,760)</u>	<u>(3,034,611)</u>	<u>(6,819,235)</u>
(4,310,000)		(4,310,000)
4,320,000		4,320,000
6,400,000		6,400,000
245,000		1,280,000
412,712	2,644,124	7,431,843
	(342,630)	(7,381,616)
<u>7,067,712</u>	<u>2,301,494</u>	<u>7,740,227</u>
6,020,952	(733,117)	920,992
	1,439,869	8,940,478
<u>\$ 6,020,952</u>	<u>\$ 706,752</u>	<u>\$ 9,861,470</u>

The accompanying notes are an integral part of the financial statements.

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PIKE COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

PIKE COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds \$ 920,992

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay	7,263,199
Asset Held For Resale	520,000
Depreciation Expense	(1,887,113)
Capital Asset Disposal	(98,606)
Receivable due on sale of capital assets	50,000

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds. These transactions, however, have no effect on net assets.

Financing Obligation - short term	(1,280,000)
Bond Issuance	(10,720,000)

Long term debt principal payments are expensed in the Governmental Funds as a use of current financial resources. These transactions, however, have no affect on net assets.

Payment to Bond Escrow Agent	4,310,000
Financing Obligations	2,286,229
Bond Payments	225,000

Change in Net Assets of Governmental Activities	<u>\$ 1,589,701</u>
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PIKE COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUNDS - MODIFIED CASH BASIS
June 30, 2005

PIKE COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUNDS - MODIFIED CASH BASIS

June 30, 2005

	Business-Type Activities		
	Enterprise Fund		
	Solid Waste Fund	Jail Canteen Fund	Totals
Assets			
Current Assets:			
Cash and Cash Equivalents	\$ 2,493,548	\$ 129,255	\$ 2,622,803
Total Current Assets	<u>2,493,548</u>	<u>129,255</u>	<u>2,622,803</u>
Noncurrent Assets:			
Capital Assets:			
Vehicles and Equipment	5,105,581		5,105,581
Less Accumulated depreciation	<u>(3,329,181)</u>		<u>(3,329,181)</u>
Total Noncurrent Assets	<u>1,776,400</u>		<u>1,776,400</u>
Total Assets	<u>4,269,948</u>	<u>129,255</u>	<u>4,399,203</u>
Liabilities			
Current Liabilities			
Financing Obligations Payable	<u>800,854</u>		<u>800,854</u>
Total Current Liabilities	<u>800,854</u>		<u>800,854</u>
Noncurrent Liabilities			
Financing Obligations Payable	<u>1,524,179</u>		<u>1,524,179</u>
Total Noncurrent Liabilities	<u>1,524,179</u>		<u>1,524,179</u>
Total Liabilities	<u>\$ 2,325,033</u>		<u>\$ 2,325,033</u>
Net Assets			
Invested in Capital Assets,			
Net of Related Debt	\$ (548,633)	\$ 0	\$ (548,633)
Restricted for Debt Service	1,836,024		1,836,024
Unrestricted	<u>657,524</u>	<u>129,255</u>	<u>786,779</u>
Total Net Assets	<u>\$ 1,944,915</u>	<u>\$ 129,255</u>	<u>\$ 2,074,170</u>

The accompanying notes are an integral part of the financial statements.

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PIKE COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

PIKE COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

	Business-Type Activities		
	Enterprise Funds		
	Solid Waste Fund	Jail Canteen Fund	Totals
Operating Revenues			
Operating Grants	\$ 239,148	\$ 0	\$ 239,148
Garbage Collection	3,454,948		3,454,948
Landfill User Fees	1,821,617		1,821,617
Recycling	11,423		11,423
Miscellaneous	54,104		54,104
Canteen Receipts		348,664	348,664
Total Operating Revenues	<u>5,581,240</u>	<u>348,664</u>	<u>5,929,904</u>
Operating Expenses			
Office Materials & Supplies	35,647		35,647
Office Expense	36,108		36,108
Maintenance Expense	361,472		361,472
Grant Expenditures	273,485		273,485
Uniforms	8,590		8,590
Payroll Expense	1,877,521		1,877,521
Fringe Benefits	1,304,589		1,304,589
Cost of Sales		271,832	271,832
Educational and Recreational		97,785	97,785
Depreciation	216,065		216,065
Miscellaneous	2,397		2,397
Total Operating Expenses	<u>4,115,874</u>	<u>369,617</u>	<u>4,485,491</u>
Operating Income (Loss)	<u>1,465,366</u>	<u>(20,953)</u>	<u>1,444,413</u>
Non-operating Revenues (Expenses)			
Interest Income	24,370		24,370
Transfer of Capital Asset to Governmental Activities	(15,281)		(15,281)
Lease Payments (Interest Expense)	(117,505)		(117,505)
Total Non-operating Revenues (Expenses)	<u>(108,416)</u>	<u>0</u>	<u>(108,416)</u>
Net Income (Loss) Before Transfers	1,356,950	(20,953)	1,335,997
Transfers In	627,916		627,916
Transfers Out	(678,143)		(678,143)
Change In Net Assets	1,306,723	(20,953)	1,285,770
Total Net Assets - Beginning	638,192	150,208	788,400
Total Net Assets - Ending	<u>\$ 1,944,915</u>	<u>\$ 129,255</u>	<u>\$ 2,074,170</u>

The accompanying notes are an integral part of the financial statements.

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PIKE COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2005

PIKE COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

	Business-Type Activities		
	Enterprise Funds		
	Solid Waste Fund	Jail Canteen Fund	Totals
Cash Flows From Operating Activities			
Receipts From Customers	\$ 5,527,136	\$ 348,664	\$ 5,875,800
Miscellaneous	54,104		54,104
Payments to Vendors	(717,699)		(717,699)
Payments to Employees	(1,877,521)		(1,877,521)
Payments of Benefits on Behalf of Employees	(1,304,589)		(1,304,589)
Cost of Sales		(271,832)	(271,832)
Educational & Recreational		(97,785)	(97,785)
Net Cash Provided By			
Operating Activities	1,681,431	(20,953)	1,660,478
Cash Flows From Noncapital Financing Activities			
Transfers to Other Funds	(678,143)		(678,143)
Transfers from Other Funds	627,916		627,916
Net Cash Provided(Used) By			
Noncapital Financing Activities	(50,227)	0	(50,227)
Cash Flows From Capital and Related Financing Activities			
Purchase of Assets	(142,511)		(142,511)
Principal Paid on Capital Debt	(826,955)		(826,955)
Interest Paid on Capital Debt	(117,505)		(117,505)
Net Cash Provided(Used) By			
Capital and Related Financing Activities	(1,086,971)	0	(1,086,971)
Cash Flows From Investing Activities			
Interest Earned	24,370	0	24,370
Net Increase (Decrease) in Cash and Cash Equivalents	568,603	(20,953)	547,650
Cash and Cash Equivalents - July 1, 2004	1,924,945	150,208	2,075,153
Cash and Cash Equivalents - June 30, 2005	\$ 2,493,548	\$ 129,255	\$ 2,622,803

The accompanying notes are an integral part of the financial statements.

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PIKE COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS
June 30, 2005

PIKE COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS

June 30, 2005

	<u>Agency Fund</u>
	<u>Inmate</u>
	<u>Account</u>
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 13,324
Total Assets	<u>13,324</u>
Liabilities	
Amounts Held In Custody For Others	<u>13,324</u>
Total Liabilities	<u>13,324</u>
Net Assets	
Total Net Assets	<u><u>\$ 0</u></u>

The accompanying notes are an integral part of the financial statements.

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PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets, are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet – Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however, the value of these assets are included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Pike County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Auditing Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes an organization that is legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

Blended Component Unit

The following legally separate organization provides its services exclusively to the primary government and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Pike County Public Properties Corporation

The fiscal court appoints a voting majority of the Public Properties Corporation's governing board and has the ability to impose its will on the governing board. In addition, the fiscal court is financially accountable and legally obligated for the debt of the Public Properties Corporation.

Discretely Presented Component Units

The component units' column in the government wide financial statements includes the data of the following organizations. It is reported on the Statement of Net Assets and the Statement of Activities in separate columns that are labeled as "Component Unit" to emphasize these organizations' separateness from the fiscal court's primary government.

Pike County Interlocal 911 Board

The Pike County Interlocal 911 Board (the Board) is a legally separate entity established to provide emergency response services to Pike County. The Board's members are appointed independently of the Pike County Fiscal Court, and the Board's governing body is substantially different from that of the Fiscal Court. However, the Fiscal Court is financially accountable for the Board because the Fiscal Court must approve rate changes established by the Board. This financial accountability requires management to include the Board as a component unit. The Board is not included in any other organization's reporting entity and does not provide services exclusively to the Fiscal Court; therefore, the financial activity of the Board is presented discretely.

The fiscal court appropriated \$398,083 to the Board for operating expenses in the fiscal year ending June 30, 2005. The Board reimbursed the fiscal court \$412,394, which included payment for the balance due at June 30, 2004. As of June 30, 2005, the balance of owed to the fiscal court is \$0.

Pike County Golf Management Corporation

The Pike County Golf Management Corporation (the Corporation) is a legally separate entity established to provide recreational services to Pike County. The Pike County Fiscal Court appoints the Corporation's board members, and the Corporation's governing body is substantially different from that of the Fiscal Court. The Corporation is not included in any other organization's reporting entity and does not provide services exclusively to the Fiscal Court; therefore, the financial activity of the Board is presented discretely.

The fiscal court appropriated \$148,190 to the Corporation for operating expenses in the fiscal year ending June 30, 2005. As of June 30, 2005 the balance owed to the fiscal court is \$328,275, which includes \$180,085 of appropriations from prior years.

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 1. Summary of Significant Accounting Policies (Continued)

C. Pike County Elected Officials Not Part Of Pike County, Kentucky

Kentucky law provides for election of the officials below from the geographic area constituting Pike County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities; however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Pike County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt – consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets – resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets – those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-Wide and Fund Financial Statements (Continued)

Funds are characterized as either major or non-major funds. Major funds are those funds whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary funds) and whose total assets, liabilities, revenues or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as a major fund.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

The modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the Fiscal Court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development (GOLD) requires a separate fund or when management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. GOLD requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

Local Government Economic Assistance Fund - The purpose of this fund is to account for funds earmarked for economic development. The primary sources of revenue for this fund are from the state. GOLD requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

General Obligation Bond Fund - The purpose of this fund is to account for debt service requirements of general obligation bonds of the Fiscal Court. The Governor's Office For Local Development does not require the Fiscal Court to report or budget these funds. This is a new fund for the 2005 fiscal year.

The government also has the following non-major funds: Jail Fund, Forestry Fund, Local Government Economic Development Fund, Maintenance Garage Fund, Capital Lease Acquisition Fund, and Public Properties Corporation Bond Fund.

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-Wide and Fund Financial Statements (Continued)

Special Revenue Funds:

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, Forestry Fund, Local Government Economic Development Fund, Maintenance Garage Fund and the Capital Lease Acquisition Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Debt Service Fund

The Public Properties Corporation Bond Fund maintained by the Pike County Public Properties Corporation is used to account for the accumulation of resources for, and the payment of long-term debt principal and interest.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's proprietary funds are garbage collection fees and landfill user fees in the Solid Waste Fund and charges to customers for sales in the Jail Canteen Fund. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements of Interpretations issued after November 30, 1989 unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

The government reports the following major proprietary funds:

Solid Waste Fund - The solid waste fund operations are authorized by the Fiscal Court. The Solid Waste Fund allows for the collection and disposal of garbage from residents of Pike County. Also included in this fund is the operation of a county landfill. The Fords branch Landfill Closing fund is included in the operations of the Solid Waste fund. The Fords Branch Landfill Closing fund collects funds during the active life of the landfill to cover final closure costs and post-closure maintenance and monitoring costs 30 years after final closure.

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135 (1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135 (2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Fiduciary Funds

Fiduciary funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments. The county's agency fund is used to account for monies held by the county in the Jail Inmate Fund for custodial purposes only. Unlike other funds, the agency fund reports assets and liabilities only; therefore, it has no measurement focus.

The primary government reports the following fiduciary fund:

Jail Inmate Fund - This fund accounts for funds received from inmates after incarceration.

Presentation of Component Units

The financial statements present the following major discretely presented component units: Pike County Interlocal 911 Board and Pike County Golf Management Corporation.

These component units are presented in a separate column on the Statement of Net Assets and the Statement of Activities that is labeled as "Component Units" to emphasize these organizations' separateness from the fiscal court's primary government.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificate of deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 25,000	10-60
Buildings and Building Improvements	25,000	10-75
Machinery and Equipment	2,500	3-25
Vehicles	2,500	5 - 7
Infrastructure	20,000	2-40

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance cost when received or when paid, during the current period.

The principal amount of the debt and interest is reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds received are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances, may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity (Continued)

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose and encumbrances.

“Reserved for Encumbrances” are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

J. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization’s governing board. Based on these criteria, the following are considered related organizations of Pike County Fiscal Court: Mountain Water District, Pike County Housing Authority, and the Pike County Extension Board.

K. Jointly Governed Organization

Pike County Fiscal Court, in conjunction with the City of Pikeville, has created the Pikeville-Pike County Airport Board (the Board). The Board is composed of six appointed members, three appointed from each of the two participating governments. The fiscal court appropriated \$37,401 to the Board for operating expenses. The Board reimburses the fiscal court for these operating expenses. As of June 30, 2005 fiscal court has not been reimbursed and the entire amount is recorded as a receivable. The Board reimbursed the fiscal court for the amount due in July 2005.

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 2. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) in accordance with KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk-Deposits

Custodial credit risk is the risk that in the event of a financial institution's failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of August 31, 2004, the County had \$8,234,269 in deposits, of which \$975,480 was exposed to custodial credit risk as follows:

- \$975,480 uninsured and unsecured

Note 3. Short-term Debt

A. In July 2004, Pike County participated in the Kentucky Association of Counties' Kentucky Advance Revenue Program by issuing a note in the amount of \$7,852,300 with principal being due in January 2005. While the county did not use the borrowed funds in order to meet current General and Road Fund expenses, they were able to invest the funds and receive net interest earnings from the Kentucky Association of Counties' Kentucky Advance Revenue Program of \$24,115.

B. On November 4, 2004, the Pike County Fiscal Court entered into a lease agreement in the amount of \$515,000 with the Kentucky Area Development District Financing Trust for a truck purchase project. The County purchased four heavy trucks for the county to use for one year; then the trucks were auctioned off in June 2005 to pay off the outstanding principal of the lease. The agreement required one payment due November 4, 2005, with an interest rate of 2.25%. The principal balance of the agreement was \$515,000 as June 30, 2005.

<u>Fiscal Year Ending June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2006	<u>\$ 11,641</u>	<u>\$ 515,000</u>
Totals	<u><u>\$ 11,641</u></u>	<u><u>\$ 515,000</u></u>

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 3. Short-term Debt (Continued)

C. On June 1, 2005, the Pike County Fiscal Court entered into a lease agreement in the amount of \$520,000 with the Kentucky Area Development District Financing Trust for a truck purchase project. The County purchased six heavy trucks to use for one year; then the trucks will be sold at auction. It is intended that the auction will generate funds sufficient to pay off most, if not the entire outstanding principal. The agreement requires one payment due November 4, 2005, with an interest rate of 3.0%. The principal balance of the agreement was \$520,000 as June 30, 2005.

<u>Fiscal Year Ending June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2006	\$ 16,571	\$ 520,000
Totals	<u>\$ 16,571</u>	<u>\$ 520,000</u>

D. On March 10, 2005, the Pike County Fiscal Court entered into a lease agreement in the amount of \$245,000 with the Kentucky Area Development District Financing Trust to pay construction costs of the new detention facility project that were payable before the 2005 Series A General Obligation Improvement Bonds could be funded. The agreement required one payment due April 4, 2006, with an interest rate of 3%. The principal balance of the agreement was paid in full on April 28, 2005 along with interest in the amount of \$1,429

Short-term liability activity for the year ended June 30, 2005, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Primary Government:				
<u>Governmental Activities:</u>				
Kentucky Advance				
Revenue Program	\$ 0	\$ 7,852,300	\$ 7,852,300	\$ 0
Financing Obligations		1,280,000	245,000	1,035,000
Governmental Activities				
Short-term Liabilities	<u>\$ 0</u>	<u>\$ 9,132,300</u>	<u>\$ 8,097,300</u>	<u>\$ 1,035,000</u>

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 4. Capital Assets

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Construction in progress	\$ 0	\$ 308,515	\$ 0	\$ 308,515
Land and Land Improvements	381,117	57,573		438,690
Total Capital Assets Not Being Depreciated	381,117	366,088		747,205
Capital Assets, Being Depreciated:				
Buildings	14,819,870	316,073		15,135,943
Infrastructure	103,167,736	6,169,274	55,362	109,281,648
Vehicles and Equipment	5,791,938	411,764	95,829	6,107,873
Total Capital Assets Being Depreciated	123,779,544	6,897,111	151,191	130,525,464
Less Accumulated Depreciation For:				
Buildings	6,765,582	467,846		7,233,428
Infrastructure	73,854,376	1,044,453		74,898,829
Vehicles and Equipment	3,600,031	374,814	52,585	3,922,260
Total Accumulated Depreciation	84,219,989	1,887,113	52,585	86,054,517
Total Capital Assets, Being Depreciated, Net	39,559,555	5,009,998	98,606	44,470,947
Governmental Activities Capital Assets, Net	<u>\$ 39,940,672</u>	<u>\$ 5,376,086</u>	<u>\$ 98,606</u>	<u>\$ 45,218,152</u>
<u>Business-Type Activities:</u>				
Capital Assets, Being Depreciated:				
Vehicles and Equipment	\$ 5,004,764	\$ 142,511	\$ 41,694	\$ 5,105,581
Total Capital Assets Being Depreciated	5,004,764	142,511	41,694	5,105,581
Less Accumulated Depreciation For:				
Vehicles and Equipment	3,139,529	216,065	26,413	3,329,181
Total Accumulated Depreciation	3,139,529	216,065	26,413	3,329,181
Total Capital Assets, Being Depreciated, Net	1,865,235	(73,554)	15,281	1,776,400
Business-Type Activities Capital Assets, Net	<u>\$ 1,865,235</u>	<u>\$ (73,554)</u>	<u>\$ 15,281</u>	<u>\$ 1,776,400</u>

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 4. Capital Assets (Continued)

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<u>Component Unit Activities:</u>				
Capital Assets Being Depreciated:				
Vehicles and Equipment	\$ 1,213,292	\$ 143,623	\$ 114,623	\$ 1,242,292
Less Accumulated Depreciation For:				
Vehicles and Equipment	457,299	104,470	84,641	477,128
Component Unit Activities Capital Assets, Net	<u>\$ 755,993</u>	<u>\$ 39,153</u>	<u>\$ 29,982</u>	<u>\$ 765,164</u>
<u>Governmental Activities:</u>				
General Government			\$ 33,996	
Protection to Persons and Property			506,809	
General Health and Sanitation			28,608	
Recreation and Culture			28,057	
Roads			<u>1,289,643</u>	
Total Depreciation Expense - Governmental Activities			<u>\$ 1,887,113</u>	
<u>Business-Type Activities</u>				
Solid Waste Vehicles and Equipment			<u>\$ 216,065</u>	
<u>Component Unit Activities:</u>				
Pike Co. Interlocal 911 Board			\$ 67,118	
Pike Co. Golf Management Board			37,352	
			<u>\$ 104,470</u>	

Receivable Due From Sale of Assets

In fiscal year ended June 30, 2005, the fiscal court sold some equipment to M&K Construction for \$50,000. The fiscal court has a contract with this company for payments to commence in the fiscal year ending June 30, 2006, therefore the entire balance for the sale is recorded as a receivable in the financial statements.

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 5. Financing Obligations

Governmental Activities:

A. On June 17, 1991 Pike County entered into a lease agreement with Kentucky Association of Counties Leasing Trust Program for courthouse renovations. The principal amount of the lease was \$5,000,000. The agreement requires variable monthly payments for 25 years to be paid in full July 1, 2016. The principal balance of the agreement was \$3,157,016 as of June 30, 2005. The variable interest rate results in a payment schedule that may not compare to the prior year schedule. Lease payments for the remaining years are as follows:

<u>Fiscal Year Ended 6/30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2006	\$ 62,945	\$ 224,127
2007	58,176	234,966
2008	53,326	246,330
2009	48,096	258,243
2010	42,659	270,732
2011-2015	122,077	1,563,193
2016	4,053	359,425
Totals	<u>\$ 391,332</u>	<u>\$ 3,157,016</u>

B. On June 29, 1993 Pike County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program for an additional courthouse renovation and furniture. The principal amount of the lease was \$600,000. The agreement requires variable monthly payments for 25 years to be paid in full March 1, 2018, with a variable interest rate. The variable interest rate results in a payment schedule that may not compare the prior year schedule. The principal balance of the agreement was \$391,646 as of June 30, 2005. Lease payments for the remaining years are as follows:

<u>Fiscal Year Ended 30-Jun</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2006	\$ 7,860	\$ 22,365
2007	7,381	23,568
2008	6,896	24,836
2009	6,366	26,173
2010	5,814	27,581
2011-2015	19,685	161,827
2016-2018	3,056	105,296
Totals	<u>\$ 57,058</u>	<u>\$ 391,646</u>

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 5. Financing Obligations (Continued)

Governmental Activities (Continued)

C. On December 1, 1999, Pike County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program for road improvement and vehicles. The principal amount of the lease was \$925,000. The agreement required variable monthly payments for 5 years to be paid in full December 20, 2004. The principal balance of the agreement was paid as required. The balance as of June 30, 2005 is \$0.

D. On November 20, 2000, Pike County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program for road equipment. The principal amount of the lease was \$1,028,500. The agreement requires variable monthly payments for 5 years to be paid in full March 20, 2006. The principal balance of the agreement was \$222,500 as of June 30, 2005. Lease payments for the remaining year is as follows:

<u>Fiscal Year Ended 30-Jun</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2006	\$ 6,187	\$ 222,500
Totals	<u>\$ 6,187</u>	<u>\$ 222,500</u>

E. On October 1, 2001, Pike County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program for the acquisition of eight 2001 Ford Crown Victorias. The principal amount of the lease was \$180,000. The agreement requires variable monthly payments for 4 years to be paid in full January 20, 2006. The principal balance of the agreement was \$45,000 as of June 30, 2005. Lease payments for the remaining years are as follows:

<u>Fiscal Year Ended 30-Jun</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2006	\$ 972	\$ 45,000
Totals	<u>\$ 972</u>	<u>\$ 45,000</u>

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 5. Financing Obligations (Continued)

Governmental Activities (Continued)

F. On January 17, 2003 Pike County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program for road improvements. The principal amount of the lease was \$4,250,000. The agreement requires variable monthly payments for 3 years to be paid in full February 20, 2006. The principal balance of the agreement was \$977,909 as of June 30, 2005. Lease payments for the remaining year is as follows:

<u>Fiscal Year Ending June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2006	\$ 11,641	\$ 977,909
Totals	<u>\$ 11,641</u>	<u>\$ 977,909</u>

G. On January 17, 2003, Pike County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program for 911 vehicles. The principal amount of the lease was \$75,000. The agreement requires variable monthly payments for 5 years to be paid in full January 20, 2008. The principal balance of the agreement was \$45,000 as of June 30, 2005. Lease payments for the remaining years are as follows:

<u>Fiscal Year Ended 30-Jun</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2006	\$ 1,062	\$ 15,000
2007	651	15,000
2008	308	15,000
Totals	<u>\$ 2,021</u>	<u>\$ 45,000</u>

H. On December 18, 1998, Pike County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program for solid waste vehicles and equipment. The principal amount of the lease was \$1,000,000. The agreement required variable monthly payments for 5 years to be paid in full February 1, 2004. The principal balance of the agreement was paid as required. The balance as of June 30, 2005 is \$0.

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 5. Financing Obligations (Continued)

Business-Type Activities

I. On December 1, 1999, Pike County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program for landfill equipment. The principal amount of the lease was \$315,625. The agreement required variable monthly payments for 5 years to be paid in full April 20, 2005. The principal balance of the agreement was paid as required. The balance as of June 30, 2005 is \$0.

J. On January 11, 2002, Pike County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program for landfill equipment. The principal amount of the lease was \$3,775,724. The agreement requires variable monthly payments for six years to be paid in full January 20, 2008. The principal balance of the agreement was \$2,005,003 as of June 30, 2005. Lease payments for the remaining years are as follows:

<u>Fiscal Year Ended 30-Jun</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2006	\$ 62,221	\$ 640,854
2007	38,874	667,962
2008	14,539	696,217
Totals	<u>\$ 115,634</u>	<u>\$ 2,005,033</u>

K On January 17, 2003, Pike County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program for landfill equipment. The principal amount of the lease was \$625,000. The agreement requires variable monthly payments for 4 years to be paid in full January 20, 2007. The principal balance of the agreement was \$320,000 as of June 30, 2005. Lease payments for the remaining years are as follows:

<u>Fiscal Year Ended 30-Jun</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2006	\$ 6,435	\$ 160,000
2007	2,371	160,000
Totals	<u>\$ 8,806</u>	<u>\$ 320,000</u>

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 6. General Obligation Bonds

A. In February 1997, the Pike County Public Properties Corporation, a component unit of the Pike County Fiscal Court, issued \$5,875,000 in refunding revenue bonds to refinance the Hall of Justice. The bonds require semiannual interest payments due August 20 and February 20 and one principal payment each year due August 20. The bonds were scheduled to mature February 20, 2019. The Fiscal Court issued refunding bonds in September 2004 to payoff this bond issue (See **Note 6-B**). As of June 30, 2005, there is \$4,627,124 being held in an escrow account to repay the bonds. The bonds cannot be paid off until March 2007; however, the bond issue is considered defeased and the outstanding debt and the escrow account are not included on the statement of net assets. As of June 30, 2005, the principal amount outstanding was \$4,310,000.

B. In September 2004, the Pike County Fiscal Court, issued \$4,320,000 in general obligation-refunding bonds to refinance the 1997 bond issue for the Hall of Justice. The bonds require semiannual interest payments due March 1 and September 1 and one principal payment each year due September 1. The bonds will mature September 1, 2018. As of June 30, 2005, the principal amount outstanding was \$4,320,000. Bond payments for the remaining years are as follows:

<u>Fiscal Year Ended 30-Jun</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2006	\$ 137,865	\$ 240,000
2007	132,915	255,000
2008	127,440	260,000
2009	120,734	275,000
2010	112,603	290,000
2011-2015	406,744	1,725,000
2016-2019	<u>100,681</u>	<u>1,275,000</u>
Totals	<u>\$ 1,138,982</u>	<u>\$ 4,320,000</u>

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 6. General Obligation Bonds (Continued)

C. On March 24, 2005, the Pike County Fiscal Court, issued \$6,400,000 in general obligation improvement bonds for improvements to the Hall of Justice. The bonds require semiannual interest payments due March 1 and September 1 and one principal payment each year due March 1. The bonds will mature March 1, 2016. As of June 30, 2005, the principal amount outstanding was \$6,400,000. Bond payments for the remaining years are as follows:

<u>Fiscal Year Ended 30-Jun</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2006	\$ 265,063	\$ 0
2007	289,160	105,000
2008	284,435	110,000
2009	279,485	115,000
2010	274,310	125,000
2011-2015	1,282,675	700,000
2016-2020	1,111,675	855,000
2021-2025	903,775	1,045,000
2026-2030	646,150	1,310,000
2031-2035	319,639	1,655,000
2036	17,290	380,000
Totals	<u>\$ 5,673,657</u>	<u>\$ 6,400,000</u>

Long-term liability activity for the year ended June 30, 2005, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Primary Government:					
<u>Governmental Activities:</u>					
General Obligation Bonds	\$ 4,535,000	\$ 10,720,000	\$ 4,535,000	\$ 10,720,000	\$ 240,000
Financing Obligations (Note 5)	<u>6,880,297</u>		<u>2,041,228</u>	<u>4,839,069</u>	<u>1,506,901</u>
Governmental Activities					
Long-term Liabilities	<u>\$ 11,415,297</u>	<u>\$ 10,720,000</u>	<u>\$ 6,576,228</u>	<u>\$ 15,559,069</u>	<u>\$ 1,746,901</u>
<u>Business-Type Activities:</u>					
Financing Obligations (Note 5)	<u>\$ 3,151,988</u>		<u>\$ 826,955</u>	<u>\$ 2,325,033</u>	<u>\$ 800,854</u>
Total Component Units	<u>\$ 3,151,988</u>	<u>\$ 0</u>	<u>\$ 826,955</u>	<u>\$ 2,325,033</u>	<u>\$ 800,854</u>

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 7 Interest On General Obligation Bonds and Financing Obligations

The Statement of Activities - governmental activities includes interest on general obligation bonds and financing obligations in the following functions: debt service \$425,672, roads \$77,404 and protection to persons and property \$4,532.

Note 8 Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing multiple-employer public deferred benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.48 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 22.08 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System at 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 9. Insurance

For the fiscal year ended June 30, 2005, Pike County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 10. Estimated Infrastructure Historical Cost

Historical cost of infrastructure placed in service prior to the fiscal year ended June 30, 2003 (year of GASB 34 implementation) is an estimate. For those assets, the primary government estimated the year infrastructure was built by determining when a major reconstruction had been done on infrastructure. This estimate was used to calculate the infrastructure historical cost by determining current year construction cost and deflating it back to the estimated year of construction or reconstruction. Estimated infrastructure historical cost includes infrastructure placed in service from fiscal year 1984 through June 30, 2002. All infrastructure assets placed in service during the fiscal year ended June 30, 2003 and thereafter are recorded at actual historical cost.

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 11. Landfill Closure and Post-Closure Costs

401 KAR 48:310 Section 2 and 3 requires the owner or operator of a landfill to have a detailed written estimate, in current dollars, the cost of hiring a third party to close the solid waste disposal site and to conduct each phase of closure care monitoring and maintenance in accordance with the closure plan. The Ford's Branch Landfill closure plan currently calls for six phases. As of June 30, 2005, 54% of phase four of the landfill capacity had been used.

Pike County must comply with established state and federal closure procedures and must perform maintenance and monitoring procedures at the site for 30 years after closure. Estimated closure costs total \$6,937,700, and estimated post closure care costs total \$10,120 per year for 30 years. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. Since the financial statements are prepared on a modified cash basis of accounting and in accordance with the laws of Kentucky, no liability has been recognized for closure or post closure costs.

The fiscal court is required by state and federal laws and regulations to make annual contributions to finance closure and post-closure care. The fiscal court annually deposits \$130,000 of solid waste receipts into an account reserved for the landfill closing. At June 30, 2005, the Ford's Branch Landfill Closing Fund had a cash balance of \$1,780,081.

The Ford's Branch Landfill is scheduled to close in the year 2010. It is anticipated that sufficient funds will be available in the Ford's Branch Landfill Closing Account to pay estimated closure and post-closure costs.

Note 12. Property Taxes

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) September 15, due at discount November 1, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale February 1 following the delinquency date.

Note 13. Prior Period Adjustment

A prior period adjustment has been made to the primary government's governmental net assets to remove the cost of roads that were adopted in 2003 and the accumulated depreciation that was associated with that cost. Starting with the first year of implementation of GASB 34, the cost of infrastructure should be based on actual cost. The county prepares its financial statements on the modified cash basis of accounting and does not include the value of donated assets as prescribed by state statute. Adopted roads constitute donated assets. Adjustments are as follows:

June 30, 2004 Net Asset Balance - Governmental Funds		\$ 37,612,214
Cost applied to roads adopted in 2003	(\$ 152,451)	
Depreciation expense taken on the adopted roads	<u>6,099</u>	
Net Adjustment		<u>(146,362)</u>
June 30, 2004, Adjusted Net Asset Balance		<u>\$ 37,465,852</u>

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 14. Related Party Transactions

The County entered into the following related party transactions, which were approved by the fiscal court.

The county expended \$ 1,334 with Venters BP for towing services. Venters BP is owned by County Magistrate Kenneth Robinson's son.

The county expended \$ 94,179 with Deskins Motors for vehicles, parts and labor. Deskins Motors is owned by County Judge/Executive William Deskins' brother.

Note 15. Net Assets Deficit - Component Unit

The deficit in net assets in the discretely presented component unit is due primarily to accumulated depreciation reducing capital assets.

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PIKE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005

PIKE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Cash Basis

For The Year Ended June 30, 2005

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 4,338,000	\$ 4,205,257	\$ 3,995,265	\$ (209,992)
In Lieu Tax Payments	27,000	27,000	29,439	2,439
Excess Fees	565,000	556,712	556,712	
Licenses and Permits	223,750	236,555	263,233	26,678
Intergovernmental Revenue	2,127,715	2,346,170	1,431,843	(914,327)
Charges for Services	34,500	36,490	33,449	(3,041)
Miscellaneous	56,550	149,195	163,296	14,101
Interest	6,750	36,919	51,507	14,588
Total Revenues	7,379,265	7,594,298	6,524,744	(1,069,554)
EXPENDITURES				
General Government	3,277,109	3,463,430	3,431,670	31,760
Protection to Persons and Property	517,003	558,997	493,251	65,746
General Health and Sanitation	527,000	835,628	752,150	83,478
Social Services	179,953	184,348	176,147	8,201
Recreation and Culture	970,219	1,056,568	593,410	463,158
Debt Service	5,043,750	5,000,000		5,000,000
Roads	57,673	72,393	66,427	5,966
Airports	92,120	92,120	84,715	7,405
Capital Projects	442,218	230,471	101,497	128,974
Administration	1,452,579	1,413,369	1,332,432	80,937
Total Expenditures	12,559,624	12,907,324	7,031,699	5,875,625
Excess (Deficiency) of Revenues				
Over Expenditures Before Other	(5,180,359)	(5,313,026)	(506,955)	4,806,071
Financing Sources (Uses)				
OTHER FINANCING SOURCES (USES)				
Financing Obligation Proceeds	5,000,000	5,000,000		(5,000,000)
Transfers From Other Funds			275,000	275,000
Transfers To Other Funds	(123,482)	(123,482)		123,482
Total Other Financing Sources (Uses)	4,876,518	4,876,518	275,000	(4,601,518)
Net Changes in Fund Balances	(303,841)	(436,508)	(231,955)	204,553
Fund Balances - Beginning	303,841	436,508	630,904	194,396
Fund Balances - Ending	\$ 0	\$ 0	\$ 398,949	\$ 398,949

PIKE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Cash Basis
For The Year Ended June 30, 2005
(Continued)

	ROAD FUND			
	<u>Budgeted Amounts</u>		<u>Actual Amounts, (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental Revenue	\$ 6,320,895	\$ 5,916,094	\$ 4,140,191	\$ (1,775,903)
Miscellaneous	52,000	119,218	659,930	540,712
In Lieu Tax Payments	52	71	70	(1)
Interest		33,548	34,134	586
Total Revenues	<u>6,372,947</u>	<u>6,068,931</u>	<u>4,834,325</u>	<u>(1,234,606)</u>
EXPENDITURES				
Roads	10,389,648	12,605,670	10,662,880	1,942,790
Administration	1,089,131	1,110,459	1,065,707	44,752
Total Expenditures	<u>11,478,779</u>	<u>13,716,129</u>	<u>11,728,587</u>	<u>1,987,542</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(5,105,832)</u>	<u>(7,647,198)</u>	<u>(6,894,262)</u>	<u>752,936</u>
OTHER FINANCING SOURCES (USES)				
Lease Proceeds	2,143,415	2,143,415		(2,143,415)
Transfers From Other Funds	3,331,671	4,100,007	4,100,007	0
Transfers To Other Funds	(633,143)	(648,143)	(648,143)	0
Total Other Financing Sources (Uses)	<u>4,841,943</u>	<u>5,595,279</u>	<u>3,451,864</u>	<u>(2,143,415)</u>
Net Changes in Fund Balances	(263,889)	(2,051,919)	(3,442,398)	(1,390,479)
Fund Balances - Beginning	<u>263,889</u>	<u>2,051,919</u>	<u>4,197,562</u>	<u>2,145,643</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 755,164</u>	<u>\$ 755,164</u>

PIKE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Cash Basis
For The Year Ended June 30, 2005
(Continued)

	LGEA FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 6,847,000	\$ 7,572,000	\$ 8,376,368	\$ 804,368
Miscellaneous		65,685	71,178	5,493
Interest				
Total Revenues	<u>6,847,000</u>	<u>7,637,685</u>	<u>8,447,546</u>	<u>809,861</u>
EXPENDITURES				
General Government	132,145	169,714	162,293	7,421
Protection to Persons and Property	687,782	724,862	618,053	106,809
General Health and Sanitation	323,240	423,449	305,007	118,442
Social Services	899,959	901,840	769,803	132,037
Recreation and Culture	1,323,710	1,340,831	584,143	756,688
Debt Service	537,500	698,717	625,779	72,938
Administration	153,952	144,977	141,607	3,370
Total Expenditures	<u>4,058,288</u>	<u>4,404,390</u>	<u>3,206,685</u>	<u>1,197,705</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>2,788,712</u>	<u>3,233,295</u>	<u>5,240,861</u>	<u>2,007,566</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds			-	
Transfers To Other Funds	<u>(5,037,102)</u>	<u>(5,905,438)</u>	<u>(6,104,631)</u>	<u>(199,193)</u>
Total Other Financing Sources (Uses)	<u>(5,037,102)</u>	<u>(5,905,438)</u>	<u>(6,104,631)</u>	<u>(199,193)</u>
Net Changes in Fund Balances	<u>(2,248,390)</u>	<u>(2,672,143)</u>	<u>(863,770)</u>	<u>1,808,373</u>
Fund Balances - Beginning	<u>2,248,390</u>	<u>2,672,143</u>	<u>2,672,143</u>	
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,808,373</u>	<u>\$ 1,808,373</u>

PIKE COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2005

Note 1. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Note 2. Reconciliation of Required Supplementary Information to Statement of Revenues, Expenditures, and Changes in Fund Balances

Following is a summary of adjustments that convert the cash basis budgetary schedules to the modified cash basis of accounting used in the Statement of Revenues, Expenditures, and Changes in Fund Balances:

	<u>Revenues</u>	<u>Expenditures</u>	<u>Other Financing Sources (Uses)</u>
<i>General Fund</i>			
Budgetary Comparison Schedule	\$ 6,524,744	\$ 7,031,699	
911 Board reimbursements received	(412,394)		
911 Board expenses paid		(398,083)	
Golf Management Corporation expenses paid		(148,190)	
Airport Board expenses paid		(37,401)	
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds - Modified			
Cash Basis	<u>\$ 6,112,350</u>	<u>\$ 6,448,025</u>	
<i>Road Fund</i>			
Budgetary Comparison Schedule		\$ 11,728,587	\$ 3,451,864
Purchases of trucks with short-term debt		1,035,000	1,035,000
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds - Modified			
Cash Basis		<u>\$ 12,763,587</u>	<u>\$ 4,486,864</u>
<i>LGEA Fund</i>			
Budgetary Comparison Schedule		\$ 3,206,685	\$ (6,104,631)
Transfers reclassified from debt service expenditures		(286,212)	(286,212)
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds - Modified			
Cash Basis		<u>\$ 2,920,473</u>	<u>\$ (6,390,843)</u>

PIKE COUNTY
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS -
MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2005

PIKE COUNTY
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS -
MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2005

	Jail Fund	Forestry Fund	Local Government Economic Development Fund	Maintenance Garage Fund	
ASSETS					
Cash and Cash Equivalents	\$ 159,353	\$ 15	\$ 516,998	\$ 13,514	
Investments					
Total assets	<u>\$ 159,353</u>	<u>\$ 15</u>	<u>\$ 516,998</u>	<u>\$ 13,514</u>	.
FUND BALANCES					
Reserved For:					
Encumbrances	\$ 585	\$ 0	\$ 0	\$ 33,543	
Capital Projects Fund					
Debt Service Fund					
Unreserved					
Special Revenue Funds	<u>158,768</u>	<u>15</u>	<u>516,998</u>	<u>(20,029)</u>	.
Total Fund Balances	<u>\$ 159,353</u>	<u>\$ 15</u>	<u>\$ 516,998</u>	<u>\$ 13,514</u>	.

PIKE COUNTY
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS -
MODIFIED CASH BASIS
Other Supplementary Information
June 30, 2005
(Continued)

Capital Lease Acquisition Fund	Public Properties Corporation Bond Fund	Total Non-Major Governmental Funds
\$ 3,555	\$ 13,317	\$ 706,752
<u>\$ 3,555</u>	<u>\$ 13,317</u>	<u>\$ 706,752</u>
\$ 0	\$ 0	\$ 34,128
3,555		3,555
	13,317	13,317
		<u>655,752</u>
<u>\$ 3,555</u>	<u>\$ 13,317</u>	<u>\$ 706,752</u>

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PIKE COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2005

PIKE COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2005

	Jail Fund	Forestry Fund	Local Government Economic Development Fund	Maintenance Garage Fund
REVENUES				
Taxes	\$ 0	\$ 6,435	\$ 0	\$ 0
Intergovernmental	1,142,350			
Charges For Services	163,112			
Miscellaneous	26,395			44,379
Interest			6,588	
Total Revenues	<u>1,331,857</u>	<u>6,435</u>	<u>6,588</u>	<u>44,379</u>
EXPENDITURES				
General Government			406,500	1,097,023
Protection to Persons and Property	1,744,681	8,208		
Debt Service				
Administration	554,795			269,821
Total Expenditures	<u>2,299,476</u>	<u>8,208</u>	<u>406,500</u>	<u>1,366,844</u>
Excess (deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(967,619)</u>	<u>(1,773)</u>	<u>(399,912)</u>	<u>(1,322,465)</u>
Other Financing Sources (Uses)				
Transfers From Other Funds	1,100,000	1,708		1,326,286
Transfers To Other Funds				
Total Other Financing Sources (Uses)	<u>1,100,000</u>	<u>1,708</u>	<u>0</u>	<u>1,326,286</u>
Net Change in Fund Balances	132,381	(65)	(399,912)	3,821
Fund Balances - Beginning (Restated)	26,972	80	916,910	9,693
Fund Balances - Ending	<u>\$ 159,353</u>	<u>\$ 15</u>	<u>\$ 516,998</u>	<u>\$ 13,514</u>

PIKE COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2005 (Continued)

Capital Lease Acquisition Fund	Public Properties Corporation Bond Fund	Total Non-Major Governmental Funds
\$ 0	\$ 0	\$ 6,435
		1,142,350
		163,112
	119,745	190,519
48	13,339	19,975
48	133,084	1,522,391
		1,503,523
		1,752,889
	475,974	475,974
		824,616
0	475,974	4,557,002
48	(342,890)	(3,034,611)
	216,130	2,644,124
	(342,630)	(342,630)
0	(126,500)	2,301,494
48	(469,390)	(733,117)
3,507	482,707	1,439,869
\$ 3,555	\$ 13,317	\$ 706,752

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PIKE COUNTY
BALANCE SHEET - GOVERNMENTAL FUND - COMPONENT UNIT - MODIFIED CASH BASIS
June 30, 2005

PIKE COUNTY
BALANCE SHEET - GOVERNMENTAL FUND - COMPONENT UNIT - MODIFIED CASH BASIS

June 30, 2005

	Pike County Interlocal 911 Board
Assets	
Cash and Cash Equivalents	\$ 114,958
Total Assets	<u>114,958</u>
Fund Balance	
Unreserved	114,958
Total Fund Balance	<u>\$ 114,958</u>

Reconciliation of the Balance Sheet-Governmental funds to the Statement of Net Assets

Total Fund Balance (Unreserved)	\$ 114,958
Amounts Reported For Governmental Activities In the Statement Of Net Assets Are Different Because Capital Assets used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds	<u>576,631</u>
Net Assets of Pike County Interlocal 911 Board	691,589
Net Assets of Pike County Golf Management Board	<u>(62,489)</u>
Total Net Assets for Component Units	<u>\$ 629,100</u>

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PIKE COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUND - COMPONENT UNIT - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

PIKE COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUND - COMPONENT UNIT - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

	Pike County Interlocal 911 Board
Revenues	
Charges For Services	\$ 434,067
Interest	576
Total Revenues	<u>434,643</u>
Expenditures	
Protection To Persons and Property	367,226
Administration	39,200
Total Expenditures	<u>406,426</u>
Excess (Deficiency) Of Revenues Over Expenditures Before Transfers and Financing Sources (Uses)	<u>28,217</u>
Other Financing Sources (Uses)	0
Net Change in Fund Balances	28,217
Fund Balances-Beginning	86,741
Fund Balances-Ending	<u><u>\$ 114,958</u></u>

**Reconciliation of the Statement of Revenues, Expenditures and Changes
In Fund Balance of Governmental Funds to the Statement of Activities**

Net Change in Fund Balances-Total Governmental Fund	\$ 28,217
Government funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets are allocated over their useful lives and reported as depreciation expense.	
Capital Outlay	24,604
Depreciation	<u>(67,118)</u>
Change in Net Assets of Pike County Interlocal 911 Board	(14,297)
Change in Net Assets of Pike County Golf Management Board	<u>(149,267)</u>
Total Change in Net Assets For Component Units	<u><u>\$ (163,564)</u></u>

**PIKE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Fiscal Year Ended June 30, 2005

A. SUMMARY OF AUDIT RESULTS

1. The Auditors' report expresses an unqualified opinion on the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Pike County. The auditors' report also expresses a qualified opinion on the aggregate discretely presented component units of Pike County.
2. No reportable conditions relating to the audit of the financial statements are reported in the Independent Auditors' Report.
3. One instance of noncompliance material to the financial statements of Pike County was disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal awards programs are reported in the Independent Auditors' Report.
5. The auditors' report on compliance for the audit of the major federal awards programs for Pike County expresses an unqualified opinion.
6. There are no audit findings relative to the major federal awards programs for Pike County reported in Part C of this schedule.
7. The program tested as a major program was: Department of Homeland Security - Public Assistance Grants - CFDA # 97.036.
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Pike County was determined to be a low-risk auditee.

B. FINDINGS-FINANCIAL STATEMENT AUDIT

STATE LAWS AND REGULATIONS

Reference Number 2005-1

The Fiscal Court Should Appoint An EMA Director Who Is A Resident Of Pike County

The Pike County Fiscal Court currently has an Emergency Management Agency Director who lives in Floyd County. KRS 39B.020(3)(b) states, "The local director shall be a resident of the Commonwealth of Kentucky and county served." The Emergency Management Director for Pike County must be a resident of Pike County. The Department of Military Affairs, Division of Emergency Management Personnel or the County Judge/Executive cannot waive the state statute. The penalty for a violation of this chapter is a class A misdemeanor unless otherwise specified in KRS 39B.990. The county received federal funds for Disaster and Emergency Assistance Grant Coordinator Salary in the amount of \$12,825. Failure to comply with KRS 39B.020 (3) (b) could result in the possible loss of federal funds. We recommend the county comply with KRS 39B.020 (3) (b) by appointing an EMA coordinator who is a resident of Pike County.

County Judge/Executive William M. Deskins Response:

The matter has been turned over to the state agency and we will go on their recommendation.

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARDS PROGRAM AUDIT

NONE.

Pike County
Schedule of Expenditures of Federal Awards
Fiscal Year Ended June 30, 2005

Federal Grantor		
Program Title	Pass-Through	
<u>Grant Name (CFDA #)</u>	<u>Grantor's Number</u>	<u>Expenditures</u>
U.S. Department of Commerce		
National Oceanic and Atmospheric Administration		
PRIDE Community Grant - Ferrell's Crk Watershed (CFDA #11.469)	CF03-35	27,500
PRIDE Super Grant - Calloway (CFDA #11.469)	SG04-11	80,595
Total U. S. Department of Commerce		<u>108,095</u>
U.S. Department of The Interior		
National Park Service		
Golf Course Improvement Grant (CFDA #15.916)	N/A	50,000
Office of Surface Mining Reclamation & Enforcement		
Passed-Through Kentucky Infrastructure Authority:		
Abandoned Mine Land Reclamation Program		
Elkhorn City Interconnector Project (CFDA #15.252)	Unknown	208,700
Total U. S. Department of the Interior		<u>258,700</u>
U.S. Department of Homeland Security		
Passed-Through State Department of Military Affairs:		
Public Assistance Grants (CFDA #97.036)	Fema-1388-DR-KY	149,175
Public Assistance Grants (CFDA #97.036)	Fema-1414-DR-KY	54,951
Public Assistance Grants (CFDA #97.036)	Fema-1454-DR-KY	29,404
Public Assistance Grants (CFDA #97.036)	Fema-1475-DR-KY	686,627
Public Assistance Grants (CFDA #97.036)	Fema-1523-DR-KY	1,239,098
Disaster and Emergency Assistance Grant- Coordinator Salary (CFDA #97.042)	M-05029993	12,825
Community Emergency Response Team 2003 Cert Funds to Counties (CFDA #97.053)	M-03432646	5,750
Total U. S. Department of Homeland Security		<u>2,177,830</u>
TOTAL FEDERAL AWARDS		<u><u>\$ 2,544,625</u></u>

PIKE COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2005

Note 1 - The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Pike County, Kentucky and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

Note 2 - The federal expenditures for Abandoned Mine Land Reclamation Program Elkhorn City Interconnector Project includes grants to the sub-recipient as follows:

<u>Sub-recipient</u>	<u>CFDA#</u>	<u>Grant Amount</u>
Mountain Water District	15.252	\$ 208,700

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Morgan-Franklin, LLC
Certified Public Accountants

P.O. Box 428
513 Main Street
West Liberty, KY 41472

Brenda K. Morgan
Jody B. Franklin

Phone: (606) 743-1884
Fax: (606) 743-1895
www.morganfranklin.com

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable William M. Deskins, Pike County Judge/Executive

Members of the Pike County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Pike County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated December 20, 2005, wherein we issued a qualified opinion on the aggregate discretely presented component units. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Pike County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration on the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Pike County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying schedule of findings and questioned costs.

- 2005-1 The Fiscal Court Should Appoint An EMA Director Who Is A Resident Of Pike County

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

Morgan - Franklin, LLC

Morgan-Franklin, LLC
Audit fieldwork completed –
December 20, 2005

Morgan-Franklin, LLC
Certified Public Accountants

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The Honorable William M. Deskins, Pike County Judge/Executive
Members of the Pike County Fiscal Court

Report on Compliance With Requirements
Applicable To Each Major Program And On Internal
Control Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Pike County, Kentucky, with types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2005. Pike County's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Pike County's management. Our responsibility is to express an opinion on Pike County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining on a test basis, evidence about Pike County's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Pike County's compliance with those requirements.

In our opinion, Pike County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of Pike County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Pike County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Report on Compliance With Requirements
Applicable To Each Major Program And On Internal
Control Over Compliance In Accordance With OMB Circular A-133

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than the specified parties.

Respectively submitted,

Morgan - Franklin, LLC

Morgan-Franklin, LLC.

Audit fieldwork completed-
December 20, 2005

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

PIKE COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2005**

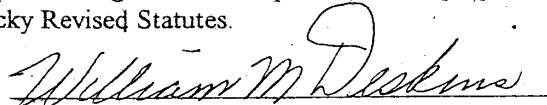
CERTIFICATION OF COMPLIANCE

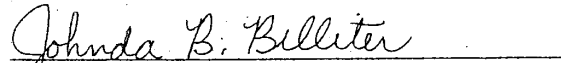
**LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT
PROGRAMS**

PIKE COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2005

The Pike County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance and Economic Development Programs were expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.


William Deskins
County Judge/Executive


Johnda Billiter
County Treasurer